



CAPRICORN DISTRICT MUNICIPALITY

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

General Information

Mayoral committee

Executive Mayor

Councillors

Kganyago MG
Lekganyane NM (Speaker)
Masoga MC (Chief Whip)
Boloka MP (MMC : Sports, Arts & Culture)
Dandane PG (MMC : Finance)
Kgare MB (MMC : Community Services)
Mashangoane PR (MMC : Development Planning & Environmental Management Services)
Matsaung MJ (MMC : Infrastructure Services)
Mahlo NP (MMC : Strategic Executive Management Services)
Seakamela NW (MMC : Local Economic Development)
Kgatla KE (MMC : Corporate Services)
Mohale MM (Chairperson: Committee of Chairpersons)
Leshilo MS (Chairperson: Ethics, Rules & Integrity Committee)
Matlou JM (Chairperson: Infrastructure Services Portfolio Committee)
Peta MM (Chairperson: Community Services Portfolio Committee)
Sebone J (Chairperson: Strategic Executive Management Services Portfolio Committee)
Chauke HE (Chairperson: Finance Portfolio Committee)
Seokotsa MM (Chairperson: Corporate Services Portfolio Committee)
Tawana MP (Chairperson: Development Planning and Environmental Management Portfolio Committee)
Tsoai ME (Chairperson: Municipal Public Accounts Committee)
Botha AH (Member)
Baloyi HP (Member)
Cholo SS (Member)
Ramaesela FM (Member)
Lediga MA (Member)
Maja MJ (Member)
Maleboho MG (Member)
Mamabolo SN (Member)
Manong MA (Member)
Manthata TW (Member)
Mapoulo ML (Member)
Mathidza SE (Member)
Mehlape QN (Member)
Mkohliswa S (Member)
Tsheola KG (Member)
Morwana MH (Member)
Mokgehele PS (Member)
Molatljane ML (Member)
Monyetshwale SJ (Member)
Moropa JM (Member)
Mphahlele MR (Member)
Ntsoane MA (Member)
Mathabatha MA (Member)
Raletjena MJ (Member)
Ramalla TA (Member)
Vilankulu RJ (Member)

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

General Information

	Sedibane MJ (Member) Rangata MJ (Member) Semenya RA (Member) Setjje ND (Member) Sono MMP (Member) Moraba MB (Member) Makgalo NG (Member)
Accounting Officer	Thuso Nemugumoni (Acting)
Grading of local authority	Category B - Grade 4
Auditors	Auditor - General
Bankers	FNB (Primary bank account)
Registered office	41 Biccard Street Polokwane 0700
Business address	41 Biccard Street Polokwane 0700
Postal address	PO Box 4100 Polokwane 0700
Telephone number	015 294 1000
Fax number	015 291 4297
E-mail address	info@cdm.org.za
Chief Finance Officer (CFO)	Venter M (Acting)

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

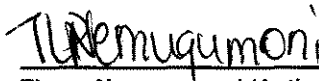
Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements for the year ended 30 June 2016, as set out on pages 5 to 40 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 21 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.



Thuso Nemugumoni (Acting)
Municipal Manager

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	4	4,831,455	7,794,979
Receivables from exchange transactions	3	3,649,687	3,169,446
Receivables from non-exchange transactions	40	66,348,786	-
VAT receivable	6	39,741,113	36,339,150
Prepayments	5	2,852,980	2,521,718
Consumer debtors	15	45,821,313	40,590,993
Cash and cash equivalents	2	205,554,277	238,328,411
		368,799,611	328,744,697
Non-Current Assets			
Property, plant and equipment	7	2,120,779,067	1,774,993,904
Intangible assets	8	15,207,114	18,192,233
		2,135,986,181	1,793,186,137
Total Assets		2,504,785,792	2,121,930,834
Liabilities			
Current Liabilities			
Finance lease obligation	13	1,370,528	1,651,511
Operating lease liability	14	253,767	-
Payables from exchange transactions	10	216,869,972	129,056,394
Unspent conditional grants and receipts	12	7,575,001	12,494,094
Provisions	11	15,090,175	13,385,196
		241,159,443	156,587,195
Non-Current Liabilities			
Finance lease obligation	13	79,097	1,333,844
Provisions	11	29,418,817	28,168,136
		29,497,914	29,501,980
Total Liabilities		270,657,357	186,089,175
Net Assets		2,234,128,435	1,935,841,659
Accumulated surplus		2,234,128,435	1,935,841,659

* See Note 39 & 37

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	41	58,327,844	44,299,735
Other income		1,164,177	1,230,331
Interest received - external investment	45	23,258,349	21,439,028
Interest earned -outstanding receivables	45	1,839,079	9,908,548
Total revenue from exchange transactions		84,589,449	76,877,642
Revenue from non-exchange transactions			
Other income		575,089	3,671,016
Government grants & subsidies	42	873,052,878	885,382,336
Total revenue from non-exchange transactions		873,627,967	889,053,352
Total revenue	16	958,217,416	965,930,994
Expenditure			
Employee related costs	17	(248,769,964)	(215,376,689)
Remuneration of councillors	18	(11,729,225)	(11,404,705)
Depreciation and amortisation	20	(56,445,207)	(44,944,096)
Finance costs	22	(273,334)	(361,975)
Debt Impairment	44	(32,635,222)	(24,275,617)
Commission paid	19	(27,531,701)	(35,986,694)
Repairs and maintenance		(40,540,347)	(37,691,530)
Bulk purchases	23	(46,808,766)	(46,783,840)
Derecognition of assets	21	(14,373,482)	(1,007,259)
General Expenses	32	(176,515,326)	(159,330,034)
Total expenditure		(655,622,574)	(577,162,439)
Operating surplus		302,594,842	388,768,555
Gain/(Loss) on disposal of assets and liabilities		(463,788)	(1,745,674)
(Impairment loss)/Reversal of impairment loss		(2,447,232)	(1,295,558)
Gains/(loss) on actuarial adjustment	9	(1,397,053)	(383,704)
		(4,308,073)	(3,424,936)
Surplus for the year		298,286,769	385,343,619

* See Note 39 & 37

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,552,687,366	1,552,687,366
Adjustments		
Prior year adjustments	(2,189,326)	(2,189,326)
Balance at 01 July 2014 as restated*	1,550,498,040	1,550,498,040
Changes in net assets		
Surplus for the year (restated)	385,343,619	385,343,619
Total changes	385,343,619	385,343,619
Restated* Balance at 01 July 2015	1,935,841,666	1,935,841,666
Changes in net assets		
Surplus for the year	298,286,769	298,286,769
Total changes	298,286,769	298,286,769
Balance at 30 June 2016	2,234,128,435	2,234,128,435

* See Note 39 & 37

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Income received from service charges and other		22,392,449	10,211,271
Grants		801,785,000	791,931,327
Interest received- external investments		23,258,349	21,439,028
Interest earned -outstanding receivables		1,839,079	9,908,548
		<u>849,274,877</u>	<u>833,490,174</u>
Payments			
Employee costs		(257,543,529)	(222,989,021)
Suppliers		(205,926,855)	(290,008,291)
Finance costs		(273,334)	(361,975)
		<u>(463,743,718)</u>	<u>(513,359,287)</u>
Net cash flows from operating activities	25	<u>385,531,159</u>	<u>320,130,887</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(415,969,203)	(356,822,996)
Proceeds from sale of property, plant and equipment	7	261,424	266,664
Purchase of other intangible assets	8	(912,573)	(16,528,792)
Net cash flows from investing activities		<u>(416,620,352)</u>	<u>(373,085,124)</u>
Cash flows from financing activities			
Finance lease payments		(1,684,941)	(1,304,289)
Net increase/(decrease) in cash and cash equivalents		<u>(32,774,134)</u>	<u>(54,258,526)</u>
Cash and cash equivalents at the beginning of the year		238,328,411	292,586,937
Cash and cash equivalents at the end of the year	2	<u>205,554,277</u>	<u>238,328,411</u>

* See Note 39 & 37

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	39,913,000	15,000,000	54,913,000	58,327,844	3,414,844	
Other income	898,605	2,440,819	3,339,424	1,164,177	(2,175,247)	
Interest received - external investment	21,613,000	-	21,613,000	23,258,349	1,645,349	
Interest earned -outstanding receivables	-	-	-	1,839,079	1,839,079	
Total revenue from exchange transactions	62,424,605	17,440,819	79,865,424	84,589,449	4,724,025	
Revenue from non-exchange transactions						
Other income	1,395	73,181	74,576	575,089	500,513	
Transfer revenue						
Government grants & subsidies	845,741,500	77,356,906	923,098,406	873,052,878	(50,045,528)	
Total revenue from non-exchange transactions	845,742,895	77,430,087	923,172,982	873,627,967	(49,545,015)	
Total revenue	908,167,500	94,870,906	1,003,038,406	958,217,416	(44,820,990)	
Expenditure						
Personnel	(263,160,000)	14,196,164	(248,963,836)	(248,769,964)	193,872	
Remuneration of councillors	(10,860,000)	(877,000)	(11,737,000)	(11,729,225)	7,775	
Depreciation and amortisation	(81,694,000)	20,498,000	(61,196,000)	(56,445,207)	4,750,793	
Finance costs	(473,000)	-	(473,000)	(273,334)	199,666	
Debt impairment	(27,939,000)	-	(27,939,000)	(32,635,222)	(4,696,222)	
Commission paid	(11,974,000)	(15,000,000)	(26,974,000)	(27,531,701)	(557,701)	
Repairs and maintenance	(93,264,000)	39,451,632	(53,812,368)	(40,540,347)	13,272,021	
Bulk purchases	(52,000,000)	5,190,000	(46,810,000)	(46,808,766)	1,234	
Derecognition of assets	-	-	-	(14,373,482)	(14,373,482)	
General Expenses	(167,616,000)	(18,817,810)	(186,433,810)	(176,515,326)	9,918,484	
Total expenditure	(708,980,000)	44,640,986	(664,339,014)	(655,622,574)	8,716,440	
Operating surplus	199,187,500	139,511,892	338,699,392	302,594,842	(36,104,550)	
Loss on disposal of assets and liabilities	-	(114,956)	(114,956)	(463,788)	(348,832)	
(Impairment loss)/Reversal of impairment loss	-	-	-	(2,447,232)	(2,447,232)	
Actuarial gains/losses	-	(1,397,053)	(1,397,053)	(1,397,053)	-	
	-	(1,512,009)	(1,512,009)	(4,308,073)	(2,796,064)	
Surplus for the year	199,187,500	137,999,883	337,187,383	298,286,769	(38,900,614)	

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Audited Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These audited financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Presentation currency

These audited financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These audited financial statements have been prepared based on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.4 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

No.	Title of Standard	Impact on GRAP Reporting Framework
GRAP 20	Related Party Disclosures	No material impact
GRAP 32	Service Concession Arrangements: Grantor	No material impact
GRAP 108	Statutory Receivables	No material impact as no merger is foreseeable in the future
GRAP 109	Accounting by Principals and Agents	No material impact

An effective date is yet to be determined for the other standards by the Minister.

New GRAP standards effective for financial years beginning on or after 1 April 2015

No.	Title of Standard	Impact on GRAP Reporting Framework
GRAP 18	Segment Reporting	No material impact
GRAP 105	Transfer of Functions Between Entities Under Common Control	No impact as the municipality is not a municipality under common control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control	No impact as no transfer of functions are anticipated in the foreseeable future
GRAP 107	Mergers	No impact as no merger is anticipated in the foreseeable future

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Property, plant and equipment

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
Land	-
Buildings	33-35
Plant and machinery	5-13
Furniture and fixtures	5-13
Motor vehicles	
• Specialist vehicles	5-14
• Other vehicles	5-14
Office equipment	3-13
IT equipment	3-13
Computer software	5-13
Infrastructure	
• Roads and Paving	15-50
Community	
• Buildings	10-55
• Security	5
Other equipment	
• Copiers	3-6
• Telephones	3-6
• Emergency equipment	5-8
Communication equipment	3-6
Leased assets	
• Office equipment	1-10
Wastewater network	
• Sewerage	15-50
Water network	
• Water Maintenance and purification	15-55
• Water Reservoir	30-55

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Property, plant and equipment (continued)

Subsequent measurement - cost

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 Impairment of cash-generating assets

Cash generating assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered in accordance with GRAP 26.

An impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognised as an expense in the statement of financial performance immediately. The recoverable amount of the asset is the higher of the assets fair value less costs of disposal and its value in use. The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the assets belong. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.7 Impairment of non-cash-generating assets

Non-cash generating assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered in accordance with GRAP 21.

An impairment loss is recognised if the recoverable service amount of an asset is less than its carrying amount. The depreciated replacement cost of an asset is essentially the current cost that will have to be incurred to replace the asset's gross service potential and is then depreciated to reflect the asset's current age or condition.

The impairment loss is recognised as an expense in the statement of financial performance immediately. The recoverable service amount of the asset is the higher of the asset's fair value less costs of disposal and its value in use.

The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

1.8 Intangible assets

Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale
- it is technically feasible to complete the intangible asset
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement -cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software

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Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.8 Intangible assets (continued)

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Website costs

The municipality has a website designed for internal and external access. The municipality is at the operating stage which comprises maintaining and enhancing applications, infrastructure, graphical design and the content of the file. The municipality incurs internally generated costs on the operation of the website and the costs are therefore expensed.

1.9 Inventories

Initial recognition

Inventories assets in the form of materials or supplies to be consumed or distributed in the rendering of service. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date.

Consumable inventory is valued using the weighted average cost whilst water inventory is also valued using the weighted average cost method.

Subsequent measurement

Inventories, consisting of consumable stores and raw materials, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Financial instruments

Classification

Financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality

Financial instruments comprise of financial assets and liabilities in accordance with GRAP 104.

A financial asset is cash; a residual interest of another municipality; or a contractual right to receive cash or another financial asset from another municipality or exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A residual interest is any contract that entitles the holder to an interest in the assets of an municipality after deducting all of its liabilities (i.e. net assets).

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another municipality; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Financial instruments, depending on its category, are initially measured at fair value, cost or amortised costs in accordance with GRAP 104. Transaction costs are only included in financial instruments that are initially measured at amortised costs.

Initial recognition and measurement

Financial instruments classified at fair value (fair value measurement considerations)

The best evidence of fair value is a quoted price in an active market.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, broker, dealer, etc., and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Short-term receivables and payables with no stated interest rate is be measured at the original invoice amount if the effect of discounting is immaterial.

Where there is no active market, the fair value is determined using a valuation technique such as;

- recent arm's length market transaction;
- if available, reference to the current fair value of another instrument that is substantially the same;
- discounted cash flow analysis, discounting the future receipts (payments) of a financial instrument over the period of the contract, by using a market interest rate (adjusted for credit risk), to its present value.

Financial instruments classified at cost

If the fair value of a financial instrument cannot be reliably measured, it is measured at cost.

Financial assets at fair value are subsequently measured by using the fair value measurement considerations.

Any gains or losses due to changes in fair market value during the period are reported as gains or losses in the statement of financial performance, because such investments will usually be sold in the near future at their market value.

This effective interest rate method is used for these financial instruments. The interest rate used is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount recognised at initial recognition. The rate is then applied to the carrying amount at each reporting date to determine the interest expense or revenue for the period

Financial instruments classified at amortised cost

For financial instruments measured at amortised cost, the interest expense (for financial liabilities) or revenue (for financial assets) is calculated by using the effective interest rate method. The interest rate used is equal to the prevailing rate of return for financial instruments having substantially the same terms and characteristics of the municipality's financial instrument which include:

- the credit quality;
- the remaining term over which the contractual interest rate is fixed;
- the remaining period to repayment of the principal; and
- the currency (if applicable).

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Financial instruments (continued)

Subsequent measurement

Impairment and uncollectability of financial assets

At the end of each reporting period, the municipality assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Impairment and uncollectability of financial assets

If there is objective evidence that an impairment loss on a financial asset has occurred, the loss must be recognised in surplus or deficit. Objective evidence that a financial asset or group of assets is impaired can be as a result of the occurrence of one or more of the following events:

(a) Significant financial difficulty experienced by the borrower/debtor;

- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The municipality would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
 - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
 - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)

(b) An municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), an municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The carrying amount of a financial asset is reduced directly through the use of an allowance account. The impairment loss is recognised in the statement of financial performance.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Receivables from exchange transactions

Trade and other receivables are initially designated at fair value.

Short-term receivables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

Payables from exchange transactions

Financial liabilities consist of trade payables. They are categorised as financial liabilities held at fair value.

Short-term payables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Financial instruments (continued)

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

Gains and losses

Gains or loss can arise from both a financial asset and financial liability measured at fair value, at amortised cost or cost. Any gains and losses are recognised in the statement of financial performance.

Fair value- Changes in the fair value will result in either a gain or loss.

Amortised cost and cost -gains and losses are recognised when derecognised, impaired or through the amortisation process.

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all the risks and rewards of the ownership of the asset; or
The municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the that party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

If the municipality has not transferred substantially all of the risks and rewards of ownership of the financial asset, it should continue to recognise the asset.

Financial liabilities

The municipality derecognises a financial liability only when:

- Discharges the liability (or part thereof) by paying the creditor, normally with cash, other financial liabilities, goods or services;
- Waives the debt or it is assumed by another entity by way of a non-exchange transaction. These transactions are accounted for by considering the requirements in GRAP 104 and GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers).
- Is legally released from primary responsibility for the liability (o part of it) either by process of law (expires) or by the creditor (cancelled). If the debtor has given a guarantee, this condition may still be met; or

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.11 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision..

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.14 Provisions (continued)

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.15 Leases

Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest Income

Revenue arising from the use by others of municipal assets yielding interest shall be recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably. Interest shall be recognised on a time basis that takes into account the effective yield of interest

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.17 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality receives revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no obligation to repay the amount.

Grants, transfers and donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Commitments

A commitment arises when a decision is made to incur a liability e.g. purchase order, delivery schedules or contract for construction of infrastructure assets. A commitment becomes a liability when the intention to agree to an outflow of resources outflow of resources becomes a present obligation.

1.19 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the Municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan

The municipality provides retirement benefits to employees and councillors through contributions made to designated retirement or pension funds.

Other post retirement obligations

The municipality provides post employment medical care benefits to retired employees completion of a minimum service period. The expected cost, of these benefits is accrued over the life expectancy of the retired employees.

The actuarial valuation method used to value liabilities is the Projected Unit Credit Method prescribed by GRAP 25.

Any plan assets are valued at current market value as required by GRAP 25.

Long term service awards and accumulated leave days

Long term service awards

Employees qualify for additional leave for various period of uninterrupted service in accordance with SALGBC condition of service. The long term service award measured in accordance with GRAP 25 through an actuarial valuation.

Accumulated leave days

Accumulated leave benefit accrues to employees unto maximum of 48 leave days. The benefits are paid in the events of death, disability, retrenchment or/and retirement. Employees who have leave days in excess of the 48 days for periods, before the conditions of service came to effect, are measured in accordance with GRAP 25 through an actuarial valuation.

1.20 Change in accounting policy, accounting estimates and prior period errors

Change in accounting estimate

Change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Accounting Policies

1.20 Change in accounting policy, accounting estimates and prior period errors (continued)

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. Any changes to the relevant financial items (associated with assets and liabilities) are made prospectively.

Change in accounting policy

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an municipality in preparing and presenting financial statements. Any changes to these policies arising from new or amended GRAP standards will be applied either retrospectively or prospectively if transitional provisions exists.

Prior period errors

Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that;

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

A prior period error is corrected by retrospective restatement, except to the extent that it is impracticable to determine the period-specific or cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

1.21 Related parties

Related party means parties are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control.

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Management is regarded as a related party and comprises of the Councillors, Executive Mayor, Mayoral Committee members, and Executive Managers.

Related party transactions are accounted for in accordance with IPSAS 20.

1.22 Budget information

The annual budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements.

The annual budget figures included in the financial statements are for the Municipality and these figures are those approved by the Council at the beginning and during the year.

1.23 Value added tax

VAT is payable on the accrual basis.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
First National Bank (Primary Bank Account)	7,024,869	19,619,073
Investment Accounts	198,503,156	218,669,850
Other cash and cash equivalents	26,252	39,488
	205,554,277	238,328,411

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - Current account	7,036,423	19,639,817	46,824,905	7,024,869	19,619,073	46,824,905

Summary of investments held

First National Bank - Call Account	302,190	299,612
Nedbank Deposit Account	111,332,533	179,058,702
Investec Call Account	86,868,433	39,311,536
	198,503,156	218,669,850

3. Receivables from exchange transactions

Trade debtors	9,703,715	9,223,474
Provision for bad debt	(6,054,028)	(6,054,028)
	3,649,687	3,169,446

Reconciliation of provision for impairment of trade and other receivables

Opening balance	6,054,028	-
Provision for impairment	-	6,054,028
	6,054,028	6,054,028

Trade debtors

Local Municipalities -Operations and maintenance conditional grants	2,956,150	3,169,446
Vendor debit balances	693,537	-
	3,649,687	3,169,446

4. Inventories

Consumable stores	345,932	420,344
Maintenance materials	4,295,464	7,124,164
Water	190,059	250,471
	4,831,455	7,794,979

5. Prepayments

Prepaid expenses	2,852,980	2,521,718
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Advanced payment were made to SALGA for 2016/17 membership fees (2016: R2 320 116 - 2015: R2 521 718), office rental paid in advance (2016: R491 530 - 2015: R0) and audit software services paid in advance (2016: R 41 333 - 2015: R0)

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
6. VAT receivable		
VAT	39,741,113	36,339,150

VAT is receivable on the accrual basis.

7. Property, plant and equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	11,861,500	-	11,861,500	11,861,500	-	11,861,500
Buildings	68,151,939	(18,856,109)	49,295,830	65,503,971	(16,869,640)	48,634,331
Furniture and fixtures	13,386,124	(7,818,603)	5,567,521	13,057,490	(6,331,910)	6,725,580
Motor vehicles	47,535,439	(22,694,583)	24,840,856	47,244,221	(20,020,307)	27,223,914
Office equipment	10,569,671	(5,465,301)	5,104,370	9,842,833	(4,159,902)	5,682,931
IT equipment	12,814,461	(4,676,179)	8,138,282	10,490,726	(3,255,674)	7,235,052
Infrastructure	1,825,171,664	(456,847,084)	1,368,324,580	1,627,743,636	(413,038,086)	1,214,705,550
Assets under construction	646,324,515	-	646,324,515	450,110,111	-	450,110,111
Leased assets	4,964,903	(3,643,290)	1,321,613	4,815,692	(2,000,757)	2,814,935
Total	2,640,780,216	(520,001,149)	2,120,779,067	2,240,670,180	(465,676,276)	1,774,993,904

No property, plant and equipment was pledged as security for liabilities.

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	11,861,500	-	-	-	-	-	11,861,500
Buildings	48,634,331	1,688,089	-	959,879	(1,986,469)	-	49,295,830
Furniture and fixtures	6,725,580	328,634	-	-	(1,486,693)	-	5,567,521
Motor vehicles	27,223,914	1,652,280	(695,960)	-	(3,339,378)	-	24,840,856
Office equipment	5,682,931	726,838	-	-	(1,305,399)	-	5,104,370
IT equipment	7,235,052	2,357,760	(29,252)	-	(1,425,278)	-	8,138,282
Infrastructure	1,214,705,550	92,898,257	-	104,529,771	(41,361,766)	(2,447,232)	1,368,324,580
Assets under construction	450,110,111	316,077,536	-	(119,863,132)	-	-	646,324,515
Leased assets	2,814,935	149,211	-	-	(1,642,533)	-	1,321,613
	1,774,993,904	415,878,605	(725,212)	(14,373,482)	(52,547,516)	(2,447,232)	2,120,779,067

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	11,861,500	-	-	-	-	11,861,500
Buildings	46,683,626	3,969,811	(113,753)	(1,905,353)	-	48,634,331
Furniture and fixtures	5,658,472	1,647,945	(32,937)	(547,900)	-	6,725,580
Motor vehicles	29,212,700	1,145,973	(121,498)	(3,013,261)	-	27,223,914
Office equipment	3,823,927	2,507,141	-	(648,137)	-	5,682,931
IT equipment	5,135,433	2,775,356	(26,385)	(649,352)	-	7,235,052
Infrastructure	989,415,757	261,595,104	-	(35,009,753)	(1,295,558)	1,214,705,550
Assets under construction	368,909,967	81,200,144	-	-	-	450,110,111
Leased assets	4,181,590	187,877	-	(1,554,532)	-	2,814,935
	1,464,882,972	355,029,351	(294,573)	(43,328,288)	(1,295,558)	1,774,993,904

Capricorn District Municipality

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8. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	20,969,654	(5,762,540)	15,207,114	20,057,081	(1,864,848)	18,192,233

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	18,192,233	912,573	(3,897,692)	15,207,114

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	4,594,330	16,528,792	(1,315,080)	(1,615,809)	18,192,233

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9. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement medical benefits to qualifying employees/ pensioners. All post-retirement medical benefits are unfunded.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of not more than two years. The Projected Unit Credit valuation method is used. The latest valuation was performed as at 30 June 2016 by ZAQ Consultants and Actuaries.

The municipality has no legal obligations to settle this liability with any immediate contributions or additional once-off contributions. The municipality intends to contribute to each defined benefit post-retirement medical scheme in accordance with the latest recommendations of the actuary to each scheme.

The accumulated defined benefit obligation in respect of the post-retirement medical contributions are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

Movement in the employee health-care liability

Liability as at 1 July	3,410,000	3,268,000
Benefits paid	(321,587)	(239,000)
Current service cost	-	-
Interest	301,000	282,000
Actuarial losses (gains)	491,587	99,000
	3,881,000	3,410,000
Current portion of liability	372,000	301,000
Non-current portion of liability	3,509,000	3,109,000
	3,881,000	3,410,000

Amounts recognised in the annual financial statements

Current service cost	-	-
Interest cost	301,000	282,000
Past service cost	-	-
Actuarial losses/ (gains)	491,587	99,000
	792,587	381,000

Sensitivity analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical aid inflation.

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

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9. Employee benefit obligations (continued)

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	4,244,000	3,881,000	3,598,000
Interest Cost	408,000	372,000	344,000
Service Cost	-	-	-
	4,652,000	4,253,000	3,942,000

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	1% Medical aid inflation	Valuation Assumption	+1% Medical aid inflation
Total Accrued Liability	3,510,000	3,881,000	4,322,000
Interest Cost	335,000	372,000	416,000
Service Cost	-	-	-
	3,845,000	4,253,000	4,738,000

Actuarial Loss/(Gain)

The combined Accrued Liability in respect of Post-employment medical aid liability is built-up as follows:

	Current Valuation date 30 June 2016	1 Year Following the Valuation Date	2 Years Following the Valuation Date	3 Years Following the Valuation Date
PV of the obligation as at the previous valuation date	3,410,000	3,881,000	3,978,000	4,072,000
Current Service Cost	-	-	-	-
Interest Cost	301,000	372,000	381,000	390,000
Benefits Paid	(321,587)	(275,000)	(287,000)	(294,000)
Actuarial Loss / (Gain)	491,587	-	-	-
	3,881,000	3,978,000	4,072,000	4,168,000

Membership Data

According to the information provided, the number of members entitled to receive postemployment medical aid subsidies from the Municipality were:

Category	30-06-2016 Valuation	30-06-2015 Valuation
Current (In Service) Members	-	-
Continuation Members (Pensioners)	6	6
	6	6

Accrued Contractual Liability

The figures below reflect the total value of the accrued contractual liability of the Municipality in respect of post-employment medical aid benefits offered to employees:

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9. Employee benefit obligations (continued)		
Category	30-06-2016 Valuation	30-06-2015 Valuation
Current (In Service) Members	-	-
Continuation Members (Pensioners)	3,881,000	3,881,000
	3,881,000	3,881,000

Interest and Service Costs

Category	30-06- 2016Valuation To be used in the 30 June 2017 Actuarial Loss/(Gain) calculation	30-06-2015 Valuation To be used in the 30 June 2016 Actuarial Loss/(Gain) calculation
Interest Cost	372,000	301,000
Current Service Cost	-	-
	372,000	301,000

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Post-employment Medical Aid Liabilities

The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement.

Valuation of Assets

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

Valuation Assumptions

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

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9. Employee benefit obligations (continued)		
Financial Variable	Assumed Value 30-06-2016 (Current Valuation)	Assumed Value 30-06-2015 (Preceding Valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	Difference between nominal and yield curves
Medical Aid Contribution Inflation	{CPI+1%}	{CPI+1%}
Net Effective Discount Rate	Yield curve based**	Yield curve based**

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

We used the nominal and real zero curves as at **30 June 2016** supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependents

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that **90%** of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be **five** years younger than their male spouses at retirement and vice versa.

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9. Employee benefit obligations (continued)

Long service award

The municipality provides long-service awards to its permanent employees

The benefit of long-service awards is provided in the form of annual leave and a gift to a certain monetary value.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of not more than two years. The Projected Unit Credit valuation method is used. The latest valuation was performed as at 30 June 2016 by ZAQ Consultants and Actuaries.

The municipality has no legal obligations to settle this liability with any immediate contributions or additional once-off contributions.

The accumulated defined benefit obligation in respect of the long-service awards are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

Movement in the long-service award liability

Liability as at 1 July	9,769,000	9,331,000
Benefits paid	(2,254,466)	(1,522,704)
Current service cost	978,000	927,000
Interest	867,000	749,000
Actuarial losses (gains)	905,466	284,704
	10,265,000	9,769,000
Current portion of liability	2,043,000	1,845,000
Non-current portion of liability	8,222,000	7,924,000
	10,265,000	9,769,000

Expense recognised in Statement of Financial Performance

Current service cost	978,000	927,000
Interest cost	867,000	749,000
Past service cost	-	-
Actuarial losses/ (gains)	523,000	284,704
	2,368,000	1,960,704

Changes in the value of obligation

	Current Valuation date 30 June 2016	1 Year following the Valuation Date	2 Years following the Valuation Date	3 Years following the Valuation Date
Liability recognised in the balance sheet	9,769,000	10,265,000	11,217,000	11,522,758
Current service cost	978,000	1,064,000	1,113,987	1,170,838
Interest cost	867,000	979,000	1,075,771	1,126,042
Benefits paid	(2,254,466)	(1,091,000)	(1,884,000)	(1,540,000)
Actuarial Loss/ (Gain)	905,466	-	-	-
	10,265,000	11,217,000	11,522,758	12,279,638

Membership data

According to the information provided, the number of members entitled to receive long service leave awards from the municipality were:

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9. Employee benefit obligations (continued)

Gender	Number of active employees	Salary weighted average age (Years)	Weighted average past service (Years)
Male	340	45,34	13,85
Female	236	40,76	10,45

Long Service Awards Liabilities

Category	30-06-2016 Valuation	30-06-2015 Valuation
Accrued liability	10,265,000	9,769,000

Interest and service costs

Category	30-06-2016 Valuation. To be used in the 30 June 2017 Actuarial Loss/(Gain) calculation	30-06-2015 Valuation. To be used in the 30 June 2016 Actuarial Loss/(Gain) calculation	Column heading	Column heading	Column heading
Interest cost	979,000	867,000	-	-	-
Current service cost	1,064,000	978,000	-	-	-
	2,043,000	1,845,000	-	-	-

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date

Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

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9. Employee benefit obligations (continued)

Completed Years of Service

	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10		4% (10/250)*Annual Salary
15		8% (20/250)*Annual Salary
20,25,30,35,40, and 45		12% (30/250)*Annual Salary

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

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Figures in Rand	2016	2015
9. Employee benefit obligations (continued)		
Financial Variable	Assumed Value 30-06-2016 (Current Valuation)	Assumed Value at 30-06-2015 (Preceding Valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based**	Yield Curve Based**

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

We use the nominal and real zero curves as at **30 June 2016** supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

** The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of **6%**. The next salary increase was assumed to take place on 01 July 2017.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

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9. Employee benefit obligations (continued)

Age band	Promotional Increase
20-24	5 %
25-29	4 %
30-34	3 %
35-39	2 %
40-44	1 %
45 and over	- %
	15 %

Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	1 %	1 %
60 +	- %	- %
	59 %	80 %

Membership Data

The information below is based on the membership data received from the Municipality.

Eligible male employees

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9. Employee benefit obligations (continued)

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	17	221,820	2,52	5,478
30 - 39	72	288,428	5,26	18,443
40 - 49	95	275,732	12,37	29,829
50 - 59	125	194,963	22,31	11,895
60 +	31	159,068	24,75	-
	340	1,140,011		65,645

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	11	210,597	2,43	2,914
30 - 39	19	283,831	6,01	18,958
40 - 49	66	284,480	10,74	30,354
50 - 59	52	186,089	23,01	11,743
60 +	8	149,336	24,15	-
	156	1,114,333		63,969

Total eligible employees

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9. Employee benefit obligations (continued)

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	28	217,411	2,48	4,471
30 - 39	171	285,767	5,69	18,741
40 - 49	161	279,318	11,69	30,044
50 - 59	177	192,356	22,51	11,850
60 +	39	157,072	24,63	-
	576	1,131,924		65,106

Interest Cost

The Interest Cost represents the accrual of interest on the Accrued Defined Benefit Obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment. This item should be accounted for in the Statement of profit or loss and other comprehensive income (herein after referred to as the "income statement") according to GRAP 25.

Current Service Cost

The Current Service Cost reflects the additional liability that is expected to accrue in respect of in service members' service over the corresponding year. This item should be accounted for in the income statement according to GRAP 25.

Sensitivity Analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	10,922,000	10,265,000	9,679,000
Current Service Cost	1,174,000	1,064,000	970,000
Interest Cost	1,050,000	979,000	917,000
	13,146,000	12,308,000	11,566,000

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

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9. Employee benefit obligations (continued)

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	9,642,000	10,265,000	10,945,000
Current Service Cost	981,000	1,064,000	1,156,000
Interest Cost	913,000	979,000	1,051,000
	11,536,000	12,308,000	13,152,000

Long-term leave

The municipality, in recognition of services rendered, grants employees 24 working days leave per year.

This leave is cumulative up to a limit of 48 working days.

There is no discounting applied to the calculation of the provision and the amount is based on the estimated 1 July salaries after allowing for an estimated salary increase. The provision is split between that which is expected to be taken within 12 months of the valuation date and that which will be taken after the 12 months.

Movement in the leave provision

Liability as at 1 July	18,244,713	15,950,620
Annual leave forfeited	-	-
Net accrued leave days over the year	672,031	2,294,093
	18,916,744	18,244,713
Current portion of liability	1,228,926	1,109,577
Non-current portion of liability	17,687,817	17,135,136
	18,916,743	18,244,713

Leave Days Provisional Liabilities

There is no standard actuarial formula that prescribes the way in which the accrued leave days balance should be broken down between short term and long-term components. We recommend that the municipality follow an approach that is consistent with its past experience.

No discounting is applied to the calculation of the annual leave provisions. The leave provision is based on the estimated 1 July 2016 salaries after allowing for an estimated salary increase of 6%. The provision is split between that which is expected to be taken within 12 months of the valuation date (short-term portion) and that which will be taken after 30 June 2017 (long-term portion).

In order to calculate the short term and long-term components of the accrued leave days provisional liability we assumed that:

1. Employees reaching the expected retirement age of 63 (2015: 63) over the coming year would cash-in their accrued leave balances in full;
2. Employees resigning from service would cash-in their accrued leave days balances in full;
3. Other employees remaining in service would take their full 24 leave days in the coming year.

We assume that all employees will take up leave to avoid forfeiture of leave days. Employees that resign or retire over the coming year will have their leave balance cashed on resignation/ retirement. We assumed 250 working days per year for the purposes of calculating the value of the accrued benefit. The current portion of the accrued leave also takes into account withdrawals from service over the next 12 months according to the table below.

Withdrawal decrements

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9. Employee benefit obligations (continued)

Age band	Withdrawal Rate Males	Withdrawal Rate Females
20-24	16 %	24 %
25-29	12 %	18 %
30-34	10 %	15 %
35-39	8 %	10 %
40-44	6 %	6 %
45-49	4 %	4 %
50-54	2 %	2 %
55-59	1 %	1 %
60+	- %	- %
	59 %	80 %

Membership data

The information below is based on the membership data received from the municipality.

According to the information provided, the number of members entitled to receive leave days from the municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Average Annual Salary
Male	335	45,34	225,618
Female	228	40,76	258,956
	563		483

10. Payables from exchange transactions

Trade Creditors	144,449,699	76,835,975
Retention Creditors	71,688,634	52,033,862
Other Creditors	731,639	186,557
	216,869,972	129,056,394

The fair value of trade and other payables approximates their carrying amounts.

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11. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonuses	6,444,277	7,150,537	(6,444,277)	7,150,537
Provision 13th cheque	3,685,342	4,080,079	(3,469,709)	4,295,712
Provision for leave	18,244,713	1,049,454	(377,424)	18,916,743
Post-employment medical benefits	3,410,000	772,000	(301,000)	3,881,000
Long-service award	9,769,000	1,921,236	(1,425,236)	10,265,000
	41,553,332	14,973,306	(12,017,646)	44,508,992

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	5,800,000	6,491,065	(5,846,788)	6,444,277
13th Cheque	3,411,339	9,743,462	(9,469,459)	3,685,342
Provision for leave	15,950,620	2,294,093	-	18,244,713
Post-employment medical	3,268,000	381,000	(239,000)	3,410,000
Long-service awards	9,331,000	1,960,704	(1,522,704)	9,769,000
	37,760,959	20,870,324	(17,077,951)	41,553,332

Non-current liabilities	29,418,817	28,168,136
Current liabilities	15,090,175	13,385,196
	44,508,992	41,553,332

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Finance management grant (FMG)	121,088	-
Municipal Infrastructure Grant(MIG)	-	7,000,000
Municipal Water Infrastructure grant(MWIG)	7,449,016	-
EEDG	-	994,094
Rural Transport Infrastructure Grant(RHIG)	4,897	4,500,000
	7,575,001	12,494,094

Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	7,000,000	93,614,151
Funds returned to Treasury	-	(64,167,050)
Current year receipts	259,966,000	259,059,000
Conditions met - transferred to revenue	(333,314,786)	(281,506,101)
Transferred to debtor	66,348,786	-
	-	7,000,000

Finance management grant (FMG)

Balance unspent at beginning of year	-	517,072
Funds returned to Treasury	-	-
Current year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,128,912)	(1,767,072)
	121,088	-

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
12. Unspent conditional grants and receipts (continued)		
Water services operating grant (WSOG)		
Balance unspent at beginning of year	-	7,999,841
Funds returned to Treasury	-	(500,000)
Current year receipts	35,000,000	25,000,000
Conditions met - transferred to revenue	(35,000,000)	(32,499,841)
	-	-
Municipal Systems Improvement Grant (MSIG)		
Balance unspent at beginning of year	-	-
Funds returned to Treasury	-	-
Current year receipts	940,000	934,000
Conditions met - transferred to revenue	(940,000)	(934,000)
	-	-
Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)		
Balance unspent at beginning of year	-	107,511
Funds returned to Treasury	-	(40,637)
Current year receipts	1,921,000	1,964,000
Conditions met - transferred to revenue	(1,921,000)	(2,030,874)
	-	-
Municipal Water Infrastructure Grant (MWIG)		
Balance unspent at beginning of year	-	-
Funds returned to Treasury	-	-
Current year receipts	58,308,000	27,379,000
Conditions met - transferred to revenue	(50,858,984)	(27,379,000)
	7,449,016	-
EEDG		
Balance unspent at beginning of year	994,094	-
Funds returned to Treasury	-	-
Current year receipts	-	4,000,000
Conditions met - transferred to revenue	(994,094)	(3,005,906)
	-	994,094
Rural household infrastructure grant (RHIG)		
Balance unspent at beginning of year	4,500,000	3,706,529
Funds returned to Treasury	-	-
Current year receipts	4,500,000	4,500,000
Conditions met - transferred to revenue	(8,995,103)	(3,706,528)
	4,897	4,500,001
Rural transport services infrastructure grant (RTSIG)		
Balance unspent at beginning of year	-	-
Funds returned to Treasury	-	-
Current year receipts	2,190,000	2,184,000
Conditions met - transferred to revenue	(2,190,000)	(2,184,000)
	-	-

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
13. Finance lease obligation		
Minimum lease payments due		
- within one year	1,432,235	1,847,804
- in second to fifth year inclusive	83,539	1,386,722
	1,515,774	3,234,526
less: future finance charges	(66,149)	(249,171)
Present value of minimum lease payments	1,449,625	2,985,355
Present value of minimum lease payments due		
- within one year	1,370,528	1,651,511
- in second to fifth year inclusive	79,097	1,333,844
	1,449,625	2,985,355
Non-current liabilities	79,097	1,333,844
Current liabilities	1,370,528	1,651,511
	1,449,625	2,985,355
14. Operating lease asset (accrual)		
Current liabilities	(253,767)	-
	(253,767)	-
Future lease payments under non- cancellable operating lease:		
Rental of office buildings		
Payable within one year	3,675,350	-
Payable within two to five years	3,998,623	-
Payable within more that five years	-	-
	7,673,973	-
Minimum lease payments recognised in statement of financial performance.		
Rental of buildings	4,408,330	3,581,582
15. Consumer debtors		
Gross balances		
Water and sanitation	166,308,964	123,874,491
Less: Allowance for impairment		
Water and sanitation	(120,487,651)	(83,283,498)
Net balance		
Water and sanitation	45,821,313	40,590,993

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
15. Consumer debtors (continued)		
Water and sanitation		
Current (0 -30 days)	5,206,087	15,274,735
31 - 60 days	4,424,194	6,518,506
61 - 90 days	3,765,674	18,797,752
91- 120 days	3,913,671	-
121 - 365 days	28,511,686	-
Undefined Difference	1	-
	45,821,313	40,590,993

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
15. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	4,260,220	-
31 - 60 days	4,703,522	-
61 - 90 days	4,414,498	-
91 - 120 days	4,280,794	-
121 - 365 days	102,427,027	-
	<u>120,086,061</u>	-
Less: Allowance for impairment	(99,100,747)	-
	<u>20,985,314</u>	-
Industrial/ commercial		
Current (0 -30 days)	656,302	-
31 - 60 days	483,958	-
61 - 90 days	360,342	-
91 - 120 days	503,625	-
121 - 365 days	12,425,418	-
	<u>14,429,645</u>	-
Less: Allowance for impairment	(11,963,698)	-
	<u>2,465,947</u>	-
National and provincial government		
Current (0 -30 days)	821,266	-
31 - 60 days	298,050	-
61 - 90 days	378,476	-
91 - 120 days	886,723	-
121 - 365 days	19,858,342	-
	<u>22,242,857</u>	-
Total		
Current (0 -30 days)	5,737,787	15,274,735
31 - 60 days	5,485,531	6,518,506
61 - 90 days	5,153,316	18,797,752
91 - 120 days	5,671,143	-
121 - 365 days	134,837,981	-
	<u>156,885,758</u>	<u>40,590,993</u>
Less: Allowance for impairment	(111,064,446)	-
Undefined Difference	1	-
	<u>45,821,313</u>	<u>40,590,993</u>
Less: Allowance for impairment		
Current (0 -30 days)	(531,700)	-
31 - 60 days	(1,061,337)	-
61 - 90 days	(1,387,642)	-
91 - 120 days	(1,757,471)	-
121 - 365 days	(115,749,501)	(83,283,498)
	<u>(120,487,651)</u>	<u>(83,283,498)</u>

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
15. Consumer debtors (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(83,283,498)	(62,510,886)
Contributions to allowance	(32,635,222)	(19,438,520)
VAT on impairment	(4,568,931)	(1,334,092)
	(120,487,651)	(83,283,498)
16. Revenue		
Service charges	58,327,844	44,299,735
Other income	1,164,177	1,230,331
Interest received - external investment	23,258,349	21,439,028
Interest earned -outstanding receivables	1,839,079	9,908,548
Other income	575,089	3,671,016
Government grants & subsidies	873,052,878	885,382,336
	958,217,416	965,930,994
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	58,327,844	44,299,735
Other income	1,164,177	1,230,331
Interest received - external investment	23,258,349	21,439,028
Interest earned -outstanding receivables	1,839,079	9,908,548
	84,589,449	76,877,642

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
16. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Other income	575,089	3,671,016
Transfer revenue		
Government grants & subsidies	873,052,878	885,382,336
	873,627,967	889,053,352

Included within Government Grants and Subsidies are the following:

Equitable Share

In terms of the Constitution, this grant is an unconditional grant. In terms of the Constitution, this allocation is to provide for an equitable sharing of National Revenue. It is primarily for the provision of basic services.

MIG

MIG is a conditional grant with a purpose to assist municipalities to build in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and the local government turnaround strategy.

Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)

To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme guidelines.

Municipal Systems Improvement Grant (MSIG)

To assist municipalities build in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and the local government turnaround strategy.

Water Services Operating Subsidy Grant (WSOG)

To subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department and transfer these schemes to local government.

Local Government Financial Management Grant (LGFMG)

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Rural transport services infrastructure grant (RTSIG)

To assist rural district municipalities to set up rural Road Asset Management Systems, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa.

Municipal Water Infrastructure Grant (MWIG)

To assist Water Services Authorities (WSAs) to provide water supply services to consumers currently without services, particularly those in rural areas.

Energy Efficiency and Demand Side Management Grant (EEDG)

To provide subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure, in order to reduce electricity consumption and improve energy efficiency.

Rural Household Infrastructure Grant (RHIG)

To provide specific capital funding for the reduction of rural sanitation backlogs and to target existing households where bulk-dependent services are not viable.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
17. Employee related costs		
Basic	148,137,351	134,444,375
Bonus	8,937,654	6,380,049
Medical aid - company contributions	46,018,581	34,741,925
Other employee related benefits	2,915,268	1,884,983
Travel, motor car, accommodation, subsistence and other allowances	17,462,639	17,026,619
Overtime payments	16,014,832	12,653,070
Housing benefits and allowances	2,344,565	2,103,295
	241,830,890	209,234,316
Other employee related costs includes		
Employee assistant programme	2,739,736	1,612,641
Union Affiliations	61,995	44,348
Special Allowance	454,692	285,133
	3,256,423	1,942,122
Remuneration of Municipal Manager		
Annual Remuneration	-	1,121,979
Car Allowance and other allowances	909,431	220,875
Performance Bonuses	-	63,464
Contributions to UIF, Medical and Pension Funds	-	292,118
	909,431	1,698,436
The Municipal Manager resigned June 2015, and the position is still vacant. The amount paid in 2016 financial year relates to acting allowances.		
Remuneration of Chief Finance Officer		
Annual Remuneration	-	763,045
Car Allowance and other allowances	401,053	172,095
Performance Bonuses	78,689	59,623
Contributions to UIF, Medical and Pension Funds	-	22,459
	479,742	1,017,222
The Chief Finance Officer resigned April 2015, and the position is still vacant. The amount paid in 2016 financial year relates to acting allowances.		
Remuneration of Technical Services		
Annual Remuneration	364,918	-
Car Allowance and other allowances	479,782	331,761
Contributions to UIF, Medical and Pension Funds	936	-
	845,636	331,761
During 2015 financial year the position of Technical Services Manager was vacant and only acting allowance was paid. The Executive Manager Technical Services was appointed January 2016.		
Remuneration of Development, Economic and Planning Management Services		
Annual Remuneration	1,008,856	866,662
Car Allowance and other allowances	137,445	174,562
Performance Bonuses	55,466	52,132
Contributions to UIF, Medical and Pension Funds	77,536	66,866
	1,279,303	1,160,222

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
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17. Employee related costs (continued)

Remuneration of Strategic Support Services

Annual Remuneration	971,479	790,223
Car Allowance and other allowances	196,835	202,040
Performance Bonuses	83,961	47,346
Contributions to UIF, Medical and Pension Funds	238,230	175,716
	1,490,505	1,215,325

Remuneration of Corporate Services

Annual Remuneration	349,828	-
Car Allowance and other allowances	449,945	309,569
Contributions to UIF, Medical and Pension Funds	75,625	-
	875,398	309,569

During 2015 financial year the position of Corporate Services Manager was vacant and only acting allowance was paid. The Executive Manager Corporate Services was appointed January 2016.

Remuneration of Community Services

Annual Remuneration	583,213	194,404
Car Allowance and other allowances	367,240	186,088
Contributions to UIF, Medical and Pension Funds	108,606	29,346
	1,059,059	409,838

The Community Services Manager was appointed March 2015

18. Remuneration of councillors

Executive Mayor	884,921	867,613
Chief Whip	654,093	731,749
Mayoral Committee Members	3,554,512	4,232,652
Speaker	696,069	727,258
Councillors	3,962,256	2,843,290
Councillors' pension and medical aid contribution	485,048	480,821
Councillors' allowances	1,492,326	1,521,322
	11,729,225	11,404,705

The salaries, allowances and benefits of political office-bearers and councillors of the municipality, are within the upper limits of the framework envisaged in section 219 of the Constitution read with the Remuneration of Public Office Bearers Act (Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor and the Speaker have use of a Council owned vehicle for official duties.

The Executive Mayor has three full-time bodyguards.

19. Commission Expense

Commission is paid to local municipalities for the management of water related services.

Water commission paid	27,531,701	35,986,694
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Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
20. Depreciation and amortisation		
Property, plant and equipment	52,547,515	43,328,287
Intangible assets	3,897,692	1,615,809
	56,445,207	44,944,096
21. Derecognition of Assets		
Derecognition of assets	14,373,482	1,007,259
22. Finance costs		
Finance, other interest and penalties	273,334	361,975
23. Bulk purchases		
Water	46,808,766	46,783,840
Purchases of water from Lepelle Northern Water.		

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
24. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	165,641,900	52,053,422
• Community	-	15,725,760
	165,641,900	67,779,182
Total capital commitments		
Already contracted for but not provided for	165,641,900	67,779,182
This expenditure will be financed from:		
Government Grants - conditional	165,641,900	52,053,422
Equitable share grants	-	15,725,760
	165,641,900	67,779,182
Authorised operational expenditure		
Already contracted for but not provided for		
• Infrastructure	206,810	10,357,231
• Community	6,747,192	54,555,892
• Other	3,741,531	-
	10,695,533	64,913,123
Total operational commitments		
Already contracted for but not provided for	10,695,533	64,913,123
This expenditure will be financed from:		
Government grants - conditional	-	10,357,231
Equitable share grant	10,695,533	54,555,892
	10,695,533	64,913,123
Total commitments		
Total commitments		
Authorised capital expenditure	165,641,900	67,779,182
Authorised operational expenditure	10,695,533	64,913,123
	176,337,433	132,692,305
This expenditure will be financed from:		
Government grants - conditional	165,641,900	62,410,652
Equitable share grant	10,695,533	70,281,653
	176,337,433	132,692,305

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
25. Cash generated from operations		
Surplus	298,286,769	385,343,619
Adjustments for:		
Depreciation and amortisation	56,445,207	44,944,096
Changes on disposal of assets	463,788	1,745,674
Impairment of assets	2,447,232	1,295,558
Debt impairment	32,635,222	24,275,617
Movements in operating lease assets and accruals	253,767	(130,217)
Movements in provisions	2,955,660	3,792,373
Changes on fair value adjustment	1,397,053	383,704
Stock losses	231,074	-
Derecognition of assets	14,373,482	1,007,259
Retention	-	(3,671,016)
Changes in working capital:		
Inventories	2,732,450	(679,001)
Receivables from exchange transactions	(480,241)	4,486,091
Other receivables from non-exchange transactions	(66,348,786)	-
Prepayments	(331,262)	(463,182)
Payables from exchange transactions	82,583,255	(7,943,799)
VAT	(3,401,963)	(16,529,268)
Unspent conditional grants and receipts	(4,919,093)	(93,451,009)
Consumer debtors	(33,792,455)	(18,221,584)
Receivables from exchange transactions	-	(6,054,028)
	385,531,159	320,130,887

26. Unauthorised expenditure

Opening balance	56,310,723	-
Unauthorised expenditure - current year	66,348,786	56,310,723
	122,659,509	56,310,723

2015: Unauthorised expenditure relates to commission payable to local municipalities.

2016: Unauthorised expenditure relates to the municipal infrastructure grant that was overspend.

27. Irregular expenditure

Opening balance	41,836,300	64,196,083
Add: Irregular Expenditure - current year	1,185,649	619,384
Less: Amounts condoned	-	(22,979,167)
	43,021,949	41,836,300

2016: The irregular expenditure is as a result of appointments made in the 11/12 financial year that are in the process completion in the 13/14 financial year. The above expenditure was mainly due to the payments of the final retention certificates after completion of the projects..

2015: Irregular expenditure relates to overpayment of councillors allowances.

The opening balance of 2014 increased from R63 444 412 with R751 671 to R64 196 083 from 2015 due to overpayment of councillors allowances not previously disclosed as irregular.

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
28. Fruitless and wasteful expenditure		
Opening balance	607,085	586,882
Fruitless and wasteful expenditure current year	-	20,203
	607,085	607,085
2015: Fruitless and wasteful expenditure relates to interest and penalties paid to SARS.		
29. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	2,521,718	2,166,880
Subscription fees	(2,846,534)	(2,263,700)
Amount paid - current year	2,852,980	2,521,718
Amount paid - previous years	324,816	96,820
	2,852,980	2,521,718
Audit fees payable		
Opening balance	25,316	-
Subscription fees	3,311,356	2,582,446
Amount paid - current year	(3,250,726)	(2,557,130)
	85,946	25,316
PAYE, UIF and SDL payable		
PAYE, UIF, and SDL	39,015,264	31,813,657
Amount paid - current year	(39,015,264)	(31,813,657)
	-	-
Pension, UIF and medical aid deductions payable		
Pension, UIF and medical aid	38,899,833	35,328,089
Amount paid - current year	(38,899,833)	(35,328,089)
	-	-

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
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29. Additional disclosure in terms of Municipal Finance Management Act (continued)

Arrear consumer account: Councillors

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2016:

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

	Amount	Amount
Ramoshaba L.L	1,640	-
Machete K.J	5,156	-
Sibanda P.S	472	573
Phaahla K.G	208	748
Mashiane M.E	308	-
Phosa N.B	105	77
Ramalla T	9,060	-
Mokgophi M.T	14,174	-
Phaahla MV	-	385
Thobejane MM	-	1,685
	31,123	3,468

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from supply chain management policy needs to be approved/condoned by the Municipal Manager, and noted by Council.

The expenses incurred, as listed below, have been approved/condoned by the Municipal Manager and noted by Council.

Incident

Acquiring a service to repair and calibrate - Sole provider	28,158	-
Disaster Services - Emergency	69,560	-
Replacement of the faulty power board - Sole provider	3,990	-
Durban Tourism Indaba: 2015 Stand Design and Construction - Sole provider	169,998	-
Durban Tourism Indaba: 2015 Stand Design and Construction - Sole provider	74,118	-
Environmental education awareness programme - Only Limpopo based organisation offering the programme	217,380	-
Procurement of water tankers for the shortage of water - Emergency	136,000	-
Provision of Protocol Training for councillors and officials - Most providers do not offer the accredited protocol training	29,009	-
Repair and calibrate Lancom Fluegas analyser - Sole provider	11,479	-
Verification and unbundling of municipal assets - Impractical to follow procurement process	2,500,000	-
SAMTRAC training course	-	204,700
Hiring a service to repair and calibrate	-	74,719
Stage drama	-	10,000
Stage performance	-	12,000
Testing of work suits materials	-	13,255
Basic disaster management and first aid training	-	140,000
Exhibition space Tourism Indaba	-	61,317
Job evaluation services	-	25,600
Stand design and construction of the tourism exhibition stand- Tourism Indaba	-	164,396
Caseware working papers	-	371,764
CASCADE system	-	111,327
Training of bead makers	-	341,000
Water safety and security plans project	-	126,615
SAP licencing for performance management module	-	612,930
	3,239,692	2,269,623

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
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30. Contingent Liability

Claim for damages

The Municipality has a contingent liability of R37 585 694 due to it being sued by service providers.

M.Tech Rustenburg	16,105,595	16,296,495
In Situ Consulting Engineers	256,934	-
BC Viljoen	-	460,000
Storm Fencing	582,491	582,491
ALS BEE	-	170,077
T. Phogole/ CDM	230,378	241,837
Qualis Consulting	1,725,856	1,725,856
In Touch	3,501,178	3,501,178
M Rapetsoa	138,000	138,000
SS Sebone	69,627	69,627
Mantella Trading	3,553,066	3,553,066
Royal Haskoning	11,422,569	1,454,075
	37,585,694	28,192,702

Interest and penalties

SARS has conducted a PAYE audit and levied additional PAYE, SDL, interest and penalties against the municipality. The municipality has objected to this and is of the view that the objection will be successful.

SARS	1,762,944	-
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Guarantee held by Eskom with regard to electricity accounts amounting to R294 600 .

31. Related parties

Relationships	
Compensation to councillors	Note 18
Contributions to organized Local Government - Note 27.4	Note 28
Post employment benefit plan for employees of entity and/or other related parties	Note 9
Members of key management	Note 17

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
32. General expenses		
Advertising	3,651,901	3,441,587
Assessment rates & municipal charges	1,513,960	1,633,788
Auditors remuneration	3,311,356	2,582,446
Bank charges	165,163	134,901
Bursaries	1,630,401	1,296,023
Cleaning	595,010	673,392
Conferences and seminars	4,219,792	3,586,294
Consulting and professional fees	3,426,346	3,824,415
Consumables	429,295	440,784
Entertainment	119,000	104,370
Financial Management	9,479,959	9,742,817
Fleet	7,355,745	8,875,153
Insurance	1,453,713	1,126,265
Legal expenses	9,255,419	1,517,571
Membership fees	2,606,606	2,295,944
Operational projects	40,604,037	39,800,469
Postage and courier	6,759	7,601
Printing and stationery	970,888	1,106,590
Rental of buildings	4,408,330	3,581,582
Rental of office equipment	542,611	451,955
Security (Guarding of municipal property)	11,251,483	9,386,608
Skills Development	2,057,219	1,853,656
Stock losses	231,074	-
Subscriptions and membership fees	1,037,680	1,076,310
Subsistence and travel	14,425,073	13,562,629
Telephone and fax	1,869,174	1,522,597
Training	3,512,483	2,831,273
Uniforms	989,100	1,254,880
Water and sanitation	45,395,749	41,618,134
	176,515,326	159,330,034
Operational projects		
Elect -Infrastructure	1,810,688	8,602,367
OPEX Environmental projects	20,490,065	13,732,385
Computer Services	5,141,674	3,686,059
Stakeholder Participation	3,314,700	4,332,947
Other projects	9,846,910	9,446,711
	40,604,037	39,800,469
Water and Sanitation		
O&M FBW Eskom payments	18,648,376	15,291,585
Water Quality projects	1,774,614	4,778,795
Household sanitation	23,691,459	19,588,827
Other water related projects	1,281,300	1,958,927
	45,395,749	41,618,134

33. Key sources of estimation uncertainty and judgements

In using estimates a number of assumptions are required. GRAP 1 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 1 and in discussion with the professional consultants.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the estimate and it is very important to monitor how this difference changes from one year's estimate to the next.

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment

Capricorn District Municipality

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Figures in Rand	2016	2015
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33. Key sources of estimation uncertainty and judgements (continued)

- Recoverable amounts of property, plant and equipment
- Present value of defined benefit obligation
- Provision for doubtful debts
- Impairment of assets
- Provision for long-term service award and medical aid benefits

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Impairment of assets
- Provisions

34. Risk management

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The following are contractual liabilities of which the interest is included in borrowings:

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,370,528	-	79,097	-
Trade and other payables	144,810,526	-	71,688,634	-
At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,651,511	-	1,333,844	-
Trade and other payables	77,022,532	-	52,033,862	-

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34. Risk management (continued)

Credit risk

Investments

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy.

Receivables

Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously.

The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

Cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any significant exposure to credit risk.

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk as at 30 June was:

Financial instrument	2016	2015
Call investments	198,503,156	218,669,850
Cash and cash equivalents	7,051,121	19,658,561
Trade receivables	45,694,117	40,590,993
Other receivables	71,144,385	4,379,065

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

35. Impairment loss

Fair value less cost to sell

Due to the unbundling of the infrastructure assets that was done recently, the value in use and the fair value was deemed to be the same, other than the fact that it can differ if the infrastructure has significant damages. As such the recoverable amount being the greater of fair value less cost and value in use, differed with each with the costs of damages of the said infrastructure.

The engineer estimated the costs of damages of each class of infrastructure assets based on quoted prices available in the market to restore the infrastructure and the professional knowledge based on the industry norms.

Property, plant and equipment	(2,447,232)	(1,295,558)
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During the year an impairment test, was performed on all categories of Property, Plant and Equipment. The method which was used to determine the recoverable amount was the higher of fair value less costs and value in use.

36. Comparison with the Budget

Material differences between budget and actual amounts

Capricorn District Municipality

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Figures in Rand	2016	2015
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36. Comparison with the Budget (continued)

The comparison of the Municipality's actual financial performance with that budgeted is set out in the statement of comparison of budget and actual amounts.

The budget is approved on an accrual basis using a classification based on the nature of expenses. The approved budget covers the period from 01 July 2015 to 30 June 2016. The budget and accounting basis are the same.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters.

Variances of 10% or more are explained as set out below:

Other income - 67% (During the adjustment budget R2,440,819 were identified as cash available from 2014/15 financial year. This was added to the budget, however the spending thereof was recognised in the Statement of Financial Position and not the Statement of Financial Performance.)

Interest earned - outstanding receivables - 100% (The municipality does not budget for interest earned on outstanding receivables.)

Depreciation and amortisation - 30% (Depreciation on assets were over budget for. It should be noted that this is a non-cash item and therefore does not affect the cash position of the municipality.)

Finance cost - 56% (There was a reduction in finance costs due to the term of leased assets that is coming to an end.)

Debt impairment - 17% (There was an increase in consumer debtors that were impaired due to a decrease in revenue collections)

Commission paid - 28% (There was an increase in the commission paid to local municipalities due to the increase in service charges billed during the year.)

Repairs and maintenance - 22% (The MWIG allocation was not fully spend therefore the variance between the budget and actual. R7,449,015.54 was applied for as a roll-over and will be spend in 2016/17.)

The following items were not budgeted for and will have a 100% variance:

- * Derecognition of assets
- * Loss on the disposal of assets and liabilities
- * Actuarial gains/losses

37. Changes in accounting estimates, errors and disclosure

Correction of error

During the financial year under review the following accounting errors were identified;

Understatement of finance costs due to not all leased assets being capitalised in 2015.

Roll overs requested for MIG, EPWP and DWA were not approved by National Treasury.

Overstatement of rental for external equipment due to not all leased assets being capitalised in 2015

Computer hardware understated due to incorrect accounting at 30 June 2015.

Capricorn District Municipality

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Notes to the Audited Financial Statements

Figures in Rand	2016	2015
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37. Changes in accounting estimates, errors and disclosure (continued)

Prior period errors

2015 Surplus for the period as previously reported	319,792,756
Government grants and subsidies- EPWP	40,637
Government grants and subsidies - MIG	64,167,051
Government grants and subsidies - DWA	500,000
Finance costs	(3,754)
Debt impairment	(5,417,966)
General expenses - Rental of External equipment	(131,625)
General Expense - Computer Hardware	(16,058)
Depreciation	(13,543)
Commission paid	5,426,123
General expenses - operational projects	1,000,000
	385,343,621

Prior period errors affecting 2014

Retained earning as previously reported	1,552,687,366
Payables from exchange transactions	21,454
VAT receivable	(1,161)
Sundry debtors	(2,209,619)
	1,550,498,040

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior year adjustments and reclassifications.

Statement of financial position

	As previously reported	Correction of error	Reclassification	Restated
Receivable from exchange transactions	4,370,908	(1,201,462)	-	3,169,446
Vat receivable	36,338,064	1,086	-	36,339,150
Consumer debtors	46,776,774	(6,185,781)	-	40,590,993
Unspent conditional grant	(77,201,781)	64,707,687	-	(12,494,094)
Payables from exchange transactions	(135,245,326)	6,188,932	-	(129,056,394)
Finance lease -current	(1,572,427)	(79,084)	-	(1,651,511)
Finance lease -non current	(1,277,549)	(56,295)	-	(1,333,844)
Property, plant and equipment	1,775,007,450	(13,543)	-	1,774,993,907
	1,647,196,113	63,361,540	-	1,710,557,653

Statement of financial performance

	As previously reported	Correction of error	Reclassification	Restated
Revenue	-	-	-	-
Government grant and subsidies	820,674,649	64,707,688	-	885,382,337
	820,674,649	64,707,688	-	885,382,337
Expenditure	-	-	-	-
Employee related costs	(215,376,687)	-	-	(215,376,687)
Remuneration of councillors	(11,404,706)	-	-	(11,404,706)
Depreciation	(44,930,552)	(13,543)	-	(44,944,095)
Debt impairment	(18,857,651)	(5,417,966)	-	(24,275,617)
Finance costs	(358,221)	(3,754)	-	(361,975)
General expenses	(160,182,352)	852,319	-	(159,330,033)
Commission paid	(41,412,817)	5,426,123	-	(35,986,694)
	328,151,663	65,550,867	-	393,702,530

Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
38. Distribution Loss		
Unit purchased (kl)	8,260,729	8,765,358
Units sold (kl)	(5,024,239)	(5,790,042)
	3,236,490	2,975,316
Average cost per unit purchases (cents per kl)	5.53	5.53
Net loss in rands	17,897,785	16,453,500
% Loss in purchases of water	38.24 %	33.94 %

39. Changes in accounting policy

The audited financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Inventory

During the year, the municipality changed its accounting policy with respect to the treatment of water inventory. The municipality changed its accounting policy from FIFO to weighted average cost method. The change will result in the financial statements providing reliable and more relevant information about the effects of transactions on the municipality financial position, financial performance and cash flows. The change had no financial impact.

The aggregate effect of the changes in accounting policy on the audited financial statements for the year ended 30 June 2015 is as follows:

Statement of Financial Performance

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2016 audited financial statements is as follows:

40. Receivables from non-exchange transactions

Government grants and subsidies	66,348,786	-
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This debtor is with relation to the overspending of the MIG grant and will be recovered from the 2016/17 MIG allocation.

41. Service charges

Sale of water	58,327,844	44,299,735
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Capricorn District Municipality

Audited Financial Statements for the year ended 30 June 2016

Notes to the Audited Financial Statements

Figures in Rand	2016	2015
42. Government grants and subsidies		
Operating grants		
Equitable share	432,984,680	492,497,687
Finance Management Grant	1,128,912	1,767,072
Municipal Systems Improvement Grant	940,000	934,000
LG Seta Grant	-	151,327
Rural Transport Infrastructure Grant	2,190,000	2,184,000
Municipal Water Infrastructure Grant	50,858,984	27,379,000
Energy Efficiency and Demand Management Grant	994,093	3,005,906
Rural Household Infrastructure Grant	8,995,103	3,706,528
EPWP Grant	1,921,000	2,030,874
Municipal Infrastructure Grant	7,737,021	-
	507,749,793	533,656,394
Capital grants		
Municipal Infrastructure Grant	325,577,765	281,506,101
Equitable Share	4,725,320	37,720,000
Water Services Operating Grant	35,000,000	32,499,841
	365,303,085	351,725,942
	873,052,878	885,382,336
43. Other revenue		
Other income	1,164,177	1,230,331
44. Debt impairment		
Contributions to debt impairment provision	32,635,222	24,275,617
45. Interest revenue		
Interest received - outstanding receivables	1,839,079	9,908,548
Interest received - external investment	23,258,349	21,439,028
	25,097,428	31,347,576
46. Auditors' remuneration		
Fees	3,311,356	2,582,446
47. Events after the reporting date		

Aganang Local Municipality was de-established with effect from 3 August 2016. During 2016/17 Capricorn District Municipality will transfer ownership of assets relating to Aganang Local Municipality to Polokwane Local Municipality.